

## DEPARTMENT OF THE TREASURY

### Fiscal Year 2003 Budget Request

#### SUMMARY OF TREASURY'S BUDGET REQUEST

*\$ in billions*

	Program Level	Customs Fee	President's Request	Legislative (Retirement)	Net Request
<b>FY 2001</b>	\$14.845	\$0	\$14.845	\$0.618	\$14.227
<b>FY 2002</b>	\$16.471	\$0	\$16.471	\$0.661	\$15.810
<b>FY 2003</b>	\$16.903	-\$0.250	\$16.654	\$0.711	\$15.942

**Note:** *The President's Request represents the program level required for the Department in Fiscal Year 2003, adjusted by the following items:*

- (1) *\$250 million through implementation of an increase to COBRA fees to support Customs overall operations;*
- (2) *\$711 million for funding of CSRS retirement costs allocated to all agency accounts in accordance with proposed legislation (FY 2001 and FY 2002 are shown above for comparison purposes only)*

#### HIGHLIGHTS OF TREASURY'S REQUEST

The President's proposed FY 2003 Budget recognizes Treasury's key role in Government as ***tax administrator, revenue collector, law enforcer, and financial manager***. Treasury developed this funding level in the context of its support for balance in Federal spending. The Department proposes a FY 2003 budget that provides the American public the security enhancements, customer service and program reliability they demand and deserve. The Request continues the Department's recent accomplishments and proposes: **(1)** key resource increases for strengthening security at home and abroad, as an outgrowth of the events of September 11, 2001; and **(2)** marked increases to the modernization program for the U.S. Customs Service and continued support for systems modernization investments for the Internal Revenue Service. With a focus on Homeland Security as a central theme, each bureau will be examining their operations to achieve improved effectiveness in line with the President's Management Agenda, and making selected capital investments for future productivity. The following pages present Treasury's key FY 2003 budget priorities and investments.

### **FY 2003 KEY PRIORITIES**

**Treasury's FY 2003 budget recognizes the importance of, and provides adequate and appropriate funding for, the following:**

- ☐ *Achieving the President's Management Agenda*
- ☐ *Protecting our Nation from Terrorists and Terrorist Activity*
- ☐ *Stewarding Change Through Technological Improvements*
- ☐ *Improving Customer Service & Compliance at the Internal Revenue Service*

### **Achieving the President's Management Agenda**

*Supports the following Treasury Strategic Goals:*

- ✓ *Support the Achievement of Business Results*
- ✓ *Cost-Effectively Finance the Government's Operations*
- ✓ *Maintain U.S. Leadership on Global Economic Issues*
- ✓ *Manage the Federal Government's Accounts*
- ✓ *Collect Revenue due to the Federal Government*
- ✓ *Improve Customer Satisfaction*
- ✓ *Improve Employee Satisfaction*

Treasury is working toward becoming a results-driven organization, consistent with the President's Five Management Reform Initiatives: **(1)** Strategic Management of Human Capital; **(2)** Expanded Electronic Government; **(3)** Improved Financial Performance; **(4)** Budget and Performance Integration; and **(5)** Competitive Sourcing. Only through the delicate balance of all five Presidential Management Initiatives can an organization achieve true *world class* performance. In working to achieve *world class* status, the Department emphasizes the importance of leadership, accountability, excellence, people, trust and integrity, and improving the work environment. In addition, as the principal custodian of the revenue collected and debt issued on behalf of the Federal Government, the Department strives to demonstrate fiscal stewardship of each congressionally authorized dollar by linking investments with specific, measurable results.

**Presidential Management Initiative 1: Strategic Management of Human Capital**

Treasury's most valuable and strategic asset is its employees, who are responsible for carrying out the Department's vast array of duties which affect the lives of every American citizen. To this end, the Department is focused on evaluating its work and processes so that each and every employee feels that their work is meaningful and contributes to the mission and objectives of the organization. In addition, the Department has aligned its resources with the achievement of the Department's strategic objectives, and is making continual improvements so that those objectives are both citizen-centered and results-oriented. In order to implement this Presidential Management Initiative, the Department is continually reassessing its human resource strategies and support systems to strengthen the quality of both its workforce and its management.

❑ Strategic management of human capital at Treasury involves:

- ✓ Workforce planning linked to each entity's mission and business objectives;
- ✓ Creating a vision and tactics that frame the characteristics of a model work environment;
- ✓ Recruiting and retaining a high-performance workforce with a focus on mission-critical occupations – those roles which are evolving and require nurturing during change and transition;
- ✓ Thorough employee orientation, training and development;
- ✓ Executive leadership and succession planning;
- ✓ Prudent use of integrated human resource technology to harness data to make decisions;
- ✓ Performance management and accountability while measuring results.

This collective "Human Capital Planning Cycle" will ultimately drive employee satisfaction. A broad variety of private industries have experienced a direct correlation between employee satisfaction and customer satisfaction. Similarly, the Department believes that high levels of employee satisfaction within the portfolio of Treasury employees will lead to enhanced service provided to its citizens, thus yielding higher customer satisfaction from both stakeholders and service users.

❑ The following extracts represent a few examples of the Department's efforts to manage its human capital and maximize success:

- ✓ Bureaus are linking together a system for accurately predicting their workforce needs within the context of their Strategic Plan, so they can develop successful recruitment and development strategies.

*In the aftermath of September 11, 2001, an increasing number of Americans have become eager to consider service opportunities in government. It is imperative that the Department exploits this opportunity and is able to recruit the best and brightest. As a result, innovative approaches to recruit high-caliber candidates into mission-critical positions are underway.*

*Working closely with both the Department and the Office of Personnel Management, bureaus are also revamping their hiring processes to address the skills and needs required to fill mission-critical positions.*

- ✓ The Secretary has emphasized that organizations known for excellence are built on a foundation of dignity and respect for its employees.

*Because job satisfaction is a number one priority for many employees, the Department is dedicated to creating a work culture of performance, challenge, meaning, and dignity, while providing employees with flexibility to balance their work and personal lives. Examples of this flexibility include tele-work and flexiplace programs, alternative work schedules, and offering family-sensitive benefits.*

*The Department is also working on a Human Resources Strategic Plan, which addresses the improvement of the performance evaluation process and rewarding of high performers.*

- ✓ Continual executive development and succession planning are the crux of maintaining effective leadership in the Department.

*Eight Treasury bureaus are currently utilizing formal SES Candidate Development Programs to develop the Department's future leaders.*

*In addition, Treasury has instituted a Treasury Executive Leadership Program, which develops leaders specifically for the Department's future interests and needs.*

- ✓ Treasury is also evaluating its internal career paths to consider whether they nurture employees to their full potential in a context of career-long learning and improvement and enhance the array of promising opportunities for advancement.

*For example, due to the recent restructuring at the Internal Revenue Service, training for the resulting new positions is now being provided for those employees interested in developing the necessary skills.*

*Also, the Bureau of Engraving and Printing has established the BEP University, which assists employees in achieving their maximum potential at their current jobs and equips them with the skills necessary for lateral or upward movement within the bureau.*

*The Bureau of Alcohol, Tobacco and Firearms has established a pilot program, which utilizes pay banding to enhance its ability to recruit and retain scientific, technical and engineering personnel.*

### **Presidential Management Initiative 2: Expanded Electronic Government**

- ❑ Another tool that generates specific business results is the use and improvement of information technology in providing solutions to common challenges facing all areas of the Department.
- ❑ Treasury is in the process of reviewing its IT portfolio for adherence to common standards, and updating and maintaining cost-benefit analyses for new and ongoing systems. This will yield an integrated comprehensive enterprise architecture at the Department level that saves money and

reduces the cycle time of major products, as exemplified by the following examples of efforts in this area:

- ✓ The Internal Revenue Service continues to work towards the Congressional goal of having 80% of all tax and information returns filed electronically by 2007. As this method of tax filing becomes more popular, the IRS has reduced processing costs from \$50 to approximately \$10 per document, with less input errors and reduced handling time and storage costs as well.

*The Administration proposes an easy, no cost option for taxpayers to file their taxes online. In addition, IRS and the Department will study the possibilities of improved business e-filing of tax and wage information, and the Department and OMB will seek legislation to extend the tax filing date for e-filers by at least 10 days.*

- ✓ HR Connect, which is currently operational in six Treasury bureaus, serves as a single, integrated automated environment for human resource operations across all Treasury bureaus. When fully operational, HR Connect will replace the 90+ legacy stand-alone human resources systems that currently exist. HR Connect will provide standardized information and will facilitate results-driven decision-making.
  - ✓ The Department's Office of the Chief Information Officer (CIO) has secured an enterprise Public Key Infrastructure (PKI) license and has established a Smart Card Manager's Forum to standardize Smart Card technology across the Department.
  - ✓ The Bureau of Alcohol, Tobacco and Firearms continues to operate systems that electronically capture revenue and allow forms to be electronically submitted for tobacco taxation collection.
- As a highly visible agency, Treasury maintains websites that are among the most frequently accessed, and are therefore tailored to the specific needs of its customer base - citizens, businesses and other government agencies. Below are examples of Treasury bureau websites that were created with the customer in mind:
- ✓ The U.S. Mint offers a large portion of their services, resources and products through the Internet. Recognized as one of the top 30 "e-tailers" in the Nation in FY 2000, the Mint's Web sales exceeded \$109 million and their return on investment has reached 20%.
  - ✓ Working closely with the Financial Management Service, Mellon Bank, MasterCard and IBM, the Bureau of Public Debt now sells U.S. Savings Bonds to the public on a 24/7 basis over the Internet. Within the first ten months of its operation, the Savings Bond Connection generated \$63 million in bond sales, resulting in a 180% return on investment.

### **Presidential Management Initiative 3: Improved Financial Performance**

Treasury has the responsibility of principal custodian of the revenue collected and debt issued on behalf of the Federal Government. To improve financial performance and expand electronic government, it is

imperative that the Department implement modern financial management systems that are capable of providing timely, accurate and reliable information.

*In recognizing that real-time information is much more valuable than information that is five months old, the Secretary has challenged each of the bureaus to improve their reporting capabilities by moving to a 3-day, monthly closing of their books by no later than July 3, 2002.*

*Once all bureaus are implementing a 3-day, monthly close, they will be able to submit better financial data for consolidated reporting to bureau and Department management. This will enable bureau and Department management to make results-driven decisions, instead of spending the majority of time aggregating the data. This will also contribute to increased employee job satisfaction by showing that the work they do contributes to the overall decision-making process.*

Bureaus are also in the process of conducting internal risk assessments focusing on payment controls, determining and investigating those areas that contain the most potential risk for improper payments. These assessments will result in improved operational performance, which will contribute to improved customer service.

#### **Presidential Management Initiative 4: Budget and Performance Integration**

Consistent with the format for the Department's FY 2003 budget proposal, integrating performance information into the budget decision-making process allows agencies to more directly focus their resource decisions on strategies and programs that produce desired results. This effort has been evolving and ongoing for the past six years. The following are examples of Departmental improvements in this area:

- ✓ Bureaus have submitted performance information along with their budget requests to the Department for several years. The Department is targeting better use of this information, lining up resources, performance data and metrics to become a more effective decision-making tool for the bureau itself, the Department, OMB and Congress, as senior officials are better able to make resource decisions based on the performance of programs and initiatives.
- ✓ Work continues on presenting bureau measures which address key activities using balanced, results-oriented performance measures, and on improving the quality of this data.
- ✓ IRS has been working on a revised method of estimating compliance; a method for payment compliance should be available in June 2003, one for filing compliance should be available by October 2003, and a method for reporting compliance should be available by November 2003.

#### **Presidential Management Initiative 5: Competitive Sourcing**

- ❑ Treasury continues to implement the FAIR Act/A-76 through utilizing contractors whenever necessary to meet its goals.

- ✓ Treasury has established an A-76 Work Group, consisting of representatives from each bureau, to enhance competitive sourcing knowledge sharing, and knowledge management Department-wide so that necessary sourcing competitions can begin as soon as possible.
  - ✓ The Department is committed to evaluating the merits of its internal efforts, by understanding competitive sourcing options – migrating to those outsourced options when it makes sense for the American people based on cost and value, while retaining those specific mission areas that are inherently governmental.
  - ✓ On January 31, 2002, Treasury submitted their 15% Competitive Sourcing Plan to OMB.
- ❑ In FY 2000, the Department spent over \$1.6 billion on service contracts. Currently, bureaus rely heavily on the private sector, as evidenced by the following:
- ✓ The Bureau of Alcohol, Tobacco and Firearms employs a broad array of contractors to support its mission, and integrates in-house solutions with outsourced vendors. This allows ATF's leadership team to focus on their core deliverables and mission-oriented goals.
  - ✓ At the Financial Management Service, contractors are involved in 41% of the total management support functions.
  - ✓ The U.S. Mint contracted out 26% of its operating expenses in FY 2000. These contractors performed not only administrative tasks, but were also responsible for other functions at the Mint such as advertising, public relations, printing, numismatic order processing, telemarketing services, and custodial and facilities management operations. During late FY 2001 and early FY 2002, the U.S. Mint built a strategic plan that ensures its employee focus on those critical areas of performance. They have leveraged the actual business execution of their operations using contractors, while their core employee base provides leadership, direction and critical business efforts.
  - ✓ IRS and the Department will study the possibilities of outsourcing some aspects of the collection process.

## **Protecting our Nation from Terrorists and Terrorist Activity**

### ***Supports the following Treasury Strategic Goals:***

- ✓ *Combat Money Laundering and Other Financial Crimes*
- ✓ *Reduce Violent Crime and the Threat of Terrorism*
- ✓ *Protect Our Nation's Leaders and Visiting Dignitaries*
- ✓ *Provide High Quality Training for Law Enforcement Personnel*

The tragic events of September 11, 2001 sparked a Nation-wide effort to prevent and combat terrorism. Treasury has been at the forefront of these efforts, with all of its law enforcement bureaus participating

in counter-terrorism functions, including internal bureau and agency security and ensuring the continuity of operations. In FY 2002, Treasury received \$683 million to combat terrorism on many fronts. In the proposed FY 2003 budget, the follow-on costs associated with the FY 2002 funding have been provided in the amount of \$518 million.

### **On the Borders**

- ❑ Following the attacks of September 11, the border threat level was raised from Alert Level 4 (normal operations) to the highest level, Alert Level 1 (Code Red).

*The Customs Service, our Nation's first line of defense at 301 ports of entry into the Nation, has made the fight against terrorism its number one priority.*

*In response to this heightened state of alert, Customs has hired additional personnel to staff our borders and seaports, and has engaged members of the National Guard to increase security around our Nation's borders.*

- ❑ Customs received a total of \$399.3 million in new FY 2002 appropriations for addressing homeland security matters (*in addition to \$65 million provided through separate Presidential releases*).

*\$235 million of this amount is being used for a combination of personnel and new equipment in ports of entry on the northern border and at critical seaports, and another \$10 million on the southern land border.*

*Customs is developing an expenditure plan for this funding for Congressional review that responds to both short and long-term security concerns. The recurring cost of labor-intensive efforts will be coupled with technology investments that will increase efficiencies and enhance the level and degree of scrutiny for various ports of entry.*

*The hiring stream for new inspectors and agents will be a careful and deliberate one that conforms to the need for training that is appropriate for this serious mission.*

*The FY 2003 proposal for the U.S. Customs Service includes \$365.4 million to fund this effort in the second year, continuing to focus principally on northern border and marine port security efforts, but also addressing other areas, such as: international money laundering, security infrastructure, southwest border staffing, and funding for the backup of commercial data facilities.*

- ❑ Ports of Entry (POE) have been identified as main entry points for terrorists as well as the most likely avenue for them to introduce implements of terror into the country. The dangers this presents has become a focus for the FY 2003 request:

*In FY 2003, Customs will add 626 new positions, in addition to the 1,075 positions allocated in FY 2002, to address vulnerable locations on the northern and southern land borders, and in seaports with the highest volume of containerized cargo. They will counter the terrorist threat while facilitating legitimate trade and travel.*



*The FY 2003 request also includes a large complement of inspection and targeting technology (including a modest research component), a further expansion of the Advance Passenger Information System (APIS) to real-time processing capability, and technology to expedite the passage of goods imported by highly trusted entities.*

*Finally, low volume POEs would be protected through "hardening" measures including physical barriers, sensors and monitoring devices to prevent and detect unauthorized crossings.*

- ❑ Customs serves as the lead agency for Operations Green Quest and Shield America. These multi-agency task forces are dedicated to: 1) identifying, disrupting, and dismantling terrorist financing sources and systems, and 2) ensuring that munitions and sensitive U.S. technologies are not unlawfully exported into the hands of terrorists. The FY 2003 budget supports and maintains these critical task forces.

### **In the Banks**

- ❑ In his November 7 address at the Financial Crimes Enforcement Network, President Bush proclaimed that "the first strike in the war against terror targeted the terrorists' financial support."

*Treasury's Financial Crimes Enforcement Network (FinCEN), along with the Office of Foreign Assets Control (OFAC), lead the Nation's war against global terrorism financing.*

*Following the attacks, FinCEN and OFAC were able to identify and stymie numerous supporters of the Al Qaida and other terrorist organizations by freezing \$34.2 million in terrorist assets and working with allies overseas to freeze \$45.8 million.*

- ❑ The funding levels proposed for FY 2003, will better enable FinCEN to address the following:
  - ✓ Sustain an increased level of support to combat terrorist financing;
  - ✓ Maintain the Suspicious Activity Reporting Hotline to expedite real-time suspicious activity reporting information obtained from financial institutions on suspected terrorist-related information;
  - ✓ Expedite the development of a pilot for a secure electronic filing system, which will enable financial institutions to file Bank Secrecy Act (BSA) reports in a more efficient fashion;
  - ✓ Support multi-agency teams designed to establish additional financial intelligence units; and
  - ✓ Provide specialized training in foreign jurisdictions deemed critical in the fight against terrorism and terrorist financing.
- ❑ With funding provided in the FY 2002 appropriations and the proposed FY 2003 budget, Treasury is working through the Office of Foreign Assets Control (OFAC) to strengthen its Foreign Terrorist Asset Tracking (FTAT) Center to address continuing issues surrounding the Government efforts to identify and block the use of terrorist assets, along with detailees from other agencies and the Terrorist Designations Group (TDG).

*This new facility will continue its critical focus of facilitating operations of the FTAT and the designations process featuring state-of-the-art computer technology, to facilitate research*

*concerning terrorist entities, their fundraising methods and activities, terrorist money movement, and funds placement abroad.*

### **At Home**

- ❑ With a heightened alert for possible terrorist activity, security within the Nation has also been increased in the protection of our Nation's leaders, foreign dignitaries and our Nation's freedom.

*The United States Secret Service is the only federal government entity charged with the challenging mission of protecting the President and foreign dignitaries.*

*In response to increasing homeland security threats, the Secret Service has been assigned new protectees and has seen significant workload increases in its protective functions.*

*The FY 2003 budget provides funding to enable the Secret Service to meet its protective requirements, including funding for travel, overtime, and follow-on costs associated with Special Agents and Uniformed Division Officers hired in FY 2002.*

- ❑ Around the world, firearms and explosives are the most frequent tools of terrorist attacks.

*The Bureau of Alcohol, Tobacco and Firearms is charged with enforcing Federal laws relating to commerce in, and the criminal misuse of, firearms and explosives, and ATF's authority and technical expertise is an integral component in fighting the Nation's war against terrorism.*

*Furthermore, knowing that the terrorists need funds to operate, ATF has found that illegal commerce in alcohol and tobacco products have served as attractive and lucrative sources for generating funds for illegal activities.*

*The FY 2003 budget provides adequate funding to support the follow-on costs associated with hiring additional agents to work on the Joint Terrorism Task Forces, and also for those costs associated with assigning additional canine handlers throughout the Country.*

- ❑ As new law enforcement officials are being recruited and hired to fulfill the various positions critical to the Nation's war on terrorism, training for these individuals to perform their duties in a safe and highly proficient manner has become an immediate necessity.

*The Federal Law Enforcement Training Center (FLETC) serves as the Federal government's leading provider of law enforcement training. FLETC currently provides training for 74 Federal Partner Organizations, and also for state, local and international law enforcement organizations on a reimbursable basis.*

*Training is provided in the most cost-effective manner by taking advantage of economies of scale available only from a consolidated law enforcement training organization.*

*The FY 2003 request provides funding to maintain current levels prior to the September 11<sup>th</sup> terrorist attacks, while also providing additional funding to support the training of new agents hired as a result of the attacks.*

## **Stewarding Change Through Technological Improvements**

*Supports the following Treasury Strategic Goals:*

- ✓ *Collect Revenue Due to the Federal Government*
- ✓ *Promote Domestic and Economic Growth*
- ✓ *Manage the Federal Government's Accounts*
- ✓ *Support the Achievement of Business Results*
- ✓ *Improve Customer Satisfaction*

### **Business Systems Modernization (Internal Revenue Service)**

- ❑ The Internal Revenue Service is committed to providing excellent customer service and takes pride in the integrity of their systems. As a result, they are continually making improvements in operations efficiency and performance by adopting best business practices and state-of-the-art technology.
- ❑ This is the fourth year of the Business System Modernization project. This multi-year endeavor is providing IRS with the technological tools and revamped business processes needed to deliver first class customer service to American taxpayers and to ensure that compliance programs are administered efficiently and fairly.
  - ✓ FY 2002 and FY 2003 are key transition years for IRS Modernization efforts, as the foundation of our Nation's tax system is being replaced, building a bridge to providing interactive and improved customer service.
- ❑ In 2001, IRS deployed its first modernized business applications, Customer Communications FY 2001 (CC01) and the Customer Relationship Management Exam (CRM Exam).
  - ✓ *Customer Communications FY 2001 came online in time to handle increased tax inquiries about the advance tax refund and was also helpful in routing callers to a special 9/11 disaster hotline.*
  - ✓ *The examination application has been deployed to Large and Medium-Sized Business Division revenue agents to enable them to more accurately calculate tax assessments. Small Business/Self Employed Division revenue agents will receive the system in 2002.*
- ❑ Starting in late 2002, taxpayers will be able to log onto a secure website and receive information concerning their tax return status. IRS estimates this will result in a 50% reduction in calls for filing information.
- ❑ The Department's FY 2003 budget provides \$450 million for the continuation of effort in re-engineering business processes and developing new business systems to replace the IRS' antiquated

and obsolete system. This amount is \$58 million above the FY 2002 enacted level of \$392 million, and \$378 million above the FY 2001 enacted level of \$72 million.

### **Automated Commercial Environment (U.S. Customs Service)**

- ❑ Even before the terrorist attacks of September 11, illegitimate trade and contraband trafficking have been of the utmost concern to the Department, the Administration, the Congress and the American public. This concern was heightened due to the tragic events of September 11, and increased pressure has been placed on the Customs Service to inspect all cargo entering and exiting the United States.
- ❑ In FY 2003, the Customs Service expects to process 27 million formal trade entries. Customs is dedicated to replacing the outdated and unreliable Automated Commercial System (ACS), which has been vulnerable to system delays and is based on an antiquated approach to data, with the Automated Commercial Environment (ACE). The replacement system will enable Customs to adopt a paperless, account-based process for importers. FY 2003 marks the third year of funding for this modernization effort.
- ❑ Besides trade facilitation and compliance, ACE will play an integral role, in conjunction with other targeting and inspection tools, in assisting Customs with the evaluation of high-risk cargo for possible contraband as it passes the Nation's borders.
- ❑ The Department's FY 2003 proposal provides for: (1) additional investments in the automation modernization program to further develop and migrate to the Automated Commercial Environment (\$307.5 million), as well as continued funding for a government-wide trade data interface through the International Trade Data System (\$5.4 million); and (2) sufficient funding to maintain the existing Automated Commercial System while modernization efforts are underway.

## **I mproving Customer Service & Compliance at the Internal Revenue Service**

- ❑ To achieve its mission of "providing America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all," the IRS has realized that organizational improvements and increased employee satisfaction lead to improved customer satisfaction. As a result, strategic objectives focus not only on the taxpayer, but also on the improvement of the bureau as a whole.
  - ✓ Many of the IRS past performance problems have been attributed to their increasing workload and declining workforce over the last ten years. Through implementation of the IRS Restructuring and Reform Act of 1998 (RRA 98), the IRS has focused efforts on these areas and made necessary adjustments to overcome both of these hurdles.
- ❑ During its strategic planning and budget process, the IRS identified \$260 million in requirements to improve processing, customer service and compliance across its organization as part of its tax

administration responsibilities. Using a combination of strategic redeployment of staff and identification of labor savings programs, the IRS has been able to internally redirect \$158 million from existing resources and redirect them to focused customer service, compliance and workload requirements. The FY 2003 request seeks additional funding for the remaining requirement of \$102 million needed to meet this mission-critical goal.

- ❑ The FY 2003 budget includes an increase of \$102 million to support efforts that are already underway to improve customer service and compliance operations. These additional resources, in addition to the redirected resources discussed earlier will be realized by the American taxpayer through the following improvements:
  - ✓ In order to meet the Congressional goal of having 80% of all returns filed electronically, the IRS requires additional personnel to assist in adding forms, schedules and new return types to its e-file website;
  - ✓ Through effective implementation of the e-file and e-services programs, the IRS will save more than 500 FTE to be redirected to assist in achieving other parts of this initiative;
  - ✓ With an anticipated increase in tax returns filed for FY 2003, a greater number of low-cost employees will be hired to handle the submission processing function, reducing the number of high cost employees needed for compliance during filing season;
  - ✓ Increases in the level of telephone service to taxpayers with respect to tax law inquiries;
  - ✓ Customer service sites will have almost instant access to tax return data, assisting staff in providing top-quality customer service to business taxpayers;
  - ✓ Re-engineering and Quality Improvement projects and programs are focusing on redesigning internal processes, policies and procedures. This effort includes: updating the antiquated workload selection system; consolidating form printing and distribution operations; more effectively and efficiently managing the batch processing and tax examination operations related to the Earned Income Tax Credit program; recognizing and serving different groups of taxpayers according to their needs in order to efficiently administer the Nation's tax system; and redesigning traffic and queuing management at walk-in sites to more efficiently handle taxpayer needs.

### ***Proposed Legislation for Fully Funding the Civil Service Retirement Program in Federal Agencies***

- ❑ The President's FY 2003 Budget corrects a long-standing understatement of the true cost of thousands of government programs.

*For some time, the accruing charge of costs associated with the Federal Employee Retirement System (FERS) and Military Retirement System (MRS), and a portion of the old Civil Service Retirement System (CSRS), have been allocated to the affected salary and expense accounts, and the remainder (a portion of CSRS, other small retirement systems, and all civilian and military retiree health benefits) has been charged to central accounts.*

*The full cost of accruing benefits is proposed for allocation to the affected salary and expense accounts, so that budget choices for program managers and budget decision-makers are not distorted by inaccurate cost information.*

- ❑ The President's Budget presents the amounts associated with shifting this cost from central accounts to affected program accounts, starting in FY 2003, predicated on the enactment of authorization legislation.

*The amounts associated with the proposal are shown on a comparable basis for program accounts in FY 2001 and FY 2002. For the first time, agencies will, assuming passage of the legislation, be charged for the accruing cost of retiree health care benefits for all civilian employees. These are also shown on a comparable basis for FY 2001 and FY 2002.*

- ❑ The proposal does not increase or lower total budget outlays or alter the surplus/deficit, since the higher payments will be offset by receipts in the pension and health funds.

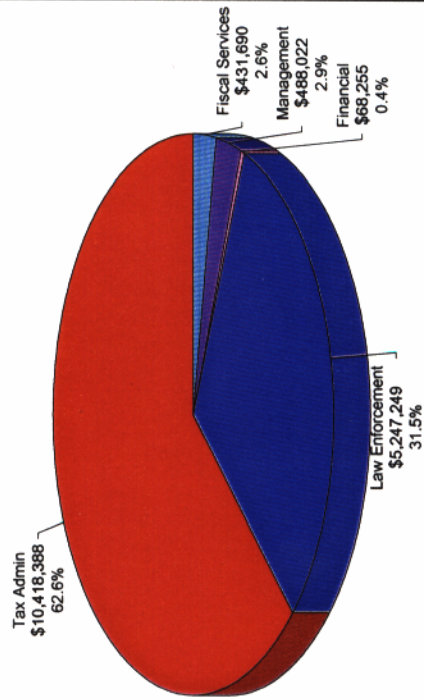
*The shift will reduce reported costs from central mandatory accounts and increase reported costs in the affected discretionary accounts. Consequently, these costs will be properly reported in the budget for the first time and considered as an annual cost of managing these programs.*

- ❑ The resources will only be used for the intended purpose and not be redirected to fund other programmatic increases. As a result, the Administration is proposing that the additional funding be fenced, or held in a reserve, and only be made available to the committees of jurisdiction for the specific purpose of adjusting for the understatement of costs.
- ❑ This change in treatment of costs is the first in a series of steps that will be taken to ensure that the full annual cost of resources used -- including support services, capital assets and hazardous waste -- is charged properly in the budget presentation.

Appropriation Account	FY 2001			FY 2002			FY 2003				
	Program Level	Less Full Costing of Benefits	Enacted w/ Supplementals	Program Level	Less Full Costing of Benefits	Enacted w/ Supplemental	Gross Program Level	Less Customs Fee	President's Budget	Less Full Costing of Benefits	Net Program Level
Tax Administration	\$9,351,825	(\$440,359)	\$8,911,466	\$9,936,210	(\$465,606)	\$9,470,604	\$10,418,388	---	\$10,418,388	(\$502,535)	\$9,915,853
Internal Revenue Service (Operations)	9,128,073	(432,881)	8,695,192	9,390,677	(457,566)	8,933,011	9,814,042		9,814,042	(494,189)	9,319,853
IRS Business Systems Modernization	71,593		71,593	391,593		391,593	450,000		450,000		450,000
Earned Income Tax Credit Compliance	152,159	(7,478)	144,681	153,940	(7,940)	146,000	154,346		154,346	(8,346)	146,000
Law Enforcement	\$4,415,847	(\$145,337)	\$4,270,510	\$5,562,848	(\$160,130)	\$5,402,718	\$5,496,999	(\$249,750)	\$5,247,249	(\$171,592)	\$5,075,657
Financial Crimes Enforcement Network	38,495	(942)	37,553	48,996	(1,459)	47,537	52,289		52,289	(1,772)	50,517
Federal Law Enforcement Training Center	156,065	(2,715)	153,350	174,051	(3,437)	170,614	149,357		149,357	(3,635)	145,722
Bureau of Alcohol, Tobacco, and Firearms	797,114	(24,441)	772,673	882,278	(27,531)	854,747	913,114		913,114	(29,339)	883,775
U.S. Customs Service											
Operations	2,270,889	(85,888)	2,185,001	2,903,788	(92,499)	2,811,289	2,868,987	(249,750)	2,619,237	(98,024)	2,521,213
ACE & ITDS	130,000		130,000	305,400		305,400	312,900		312,900		312,900
U.S. Secret Service	860,350	(26,544)	833,806	1,095,663	(30,108)	1,065,555	1,047,589		1,047,589	(33,635)	1,013,954
Interagency Crime and Drug Enforcement (OCDETF)	108,055	(4,807)	103,248	112,672	(5,096)	107,576	112,763		112,763	(5,187)	107,576
Counter-Terrorism Fund	\$4,879		\$4,879	40,000		40,000	40,000		40,000		40,000
Fiscal Service Operations	\$456,389	(\$17,608)	\$438,781	\$418,689	(\$18,886)	\$399,803	\$431,690	---	\$431,690	(\$19,859)	\$411,831
Financial Management Service	265,887	(9,805)	256,082	223,321	(10,471)	212,850	231,903		231,903	(11,191)	220,712
Bureau of the Public Debt	190,502	(7,803)	182,699	195,368	(8,415)	186,953	199,787		199,787	(8,668)	191,119
Management	\$497,101	(\$14,611)	\$482,490	\$463,508	(\$16,004)	\$447,504	\$478,022	---	\$478,022	(\$16,917)	\$461,105
Departmental Offices											
Salaries and Expenses	234,324	(5,887)	228,437	183,880	(6,738)	177,142	199,127		199,127	(7,213)	191,914
Treasury-wide Fin. Statements Audit Prog(non-add)...	---	---	---	---	---	---	[5,893]		[5,893]		[5,893]
Air Transportation Stabilization Program				9,400		9,400	6,041		6,041		6,041
Treas Bldg & Annex Repairs & Restoration	30,994	(62)	30,932	29,009	(77)	28,932	33,014		33,014	(82)	32,932
Office of Inspector General	34,468	(1,641)	32,827	37,287	(1,863)	35,424	37,375		37,375	(1,947)	35,428
Treasury Inspector General for Tax Administration	125,187	(7,021)	118,166	133,104	(7,326)	125,778	131,637		131,637	(7,675)	123,962
Department-wide Systems & Capital Invest. Program	62,150		62,150	68,828		68,828	68,828		68,828		68,828
Expanded Access for Financial Services	9,978		9,978	2,000		2,000	2,000		2,000		2,000
Total, Treasury Appropriation Committee	\$14,721,162	(\$617,915)	\$14,103,247	\$16,381,255	(\$660,626)	\$15,720,629	\$16,825,099	(\$249,750)	\$16,575,349	(\$710,903)	\$15,864,446
Other Appropriation Committees											
Community Development Financial Institutions Fund	117,922	(182)	117,740	80,223	(223)	80,000	68,255		68,255	(255)	68,000
International Affairs Technical Assistance	5,987		5,987	9,500		9,500	10,000		10,000		10,000
Total, Treasury Level	\$14,845,071	(\$618,097)	\$14,226,974	\$16,470,978	(\$660,849)	\$15,810,129	\$16,903,354	(\$249,750)	\$16,653,604	(\$711,158)	\$15,942,446

Department of the Treasury  
FY 2003 President's Budget  
(dollars in thousands)

Funding Request - \$16.654B



Total FTE Staffing - 152,322

